Roots Reports Fiscal 2019 Third Quarter Results

TORONTO, December 6, 2019 – Roots ("Roots," "Roots Canada" or the "Company") (TSX: ROOT), a premium outdoor lifestyle brand, today announced its financial results for its third quarter ended November 2, 2019 ("Q3 2019"). All financial results are reported in Canadian dollars unless otherwise stated. Certain metrics, including those expressed on an adjusted or comparable basis, are non-IFRS measures. See "Non-IFRS Measures and Industry Metrics".

Third Quarter Fiscal 2019 Highlights

- Total sales of $86.4 million, compared to $87.0 million in the third quarter of fiscal 2018 ("Q3 2018")
    - Direct-to-Consumer ("DTC") sales of $73.9 million, up 4.6% from $70.7 million in Q3 2018
- Comparable Sales Growth of 3.0%
- Gross margin of 54.9%, compared to 55.1% in Q3 2018
    - Adjusted DTC Gross Margin of 59.3%, compared to 62.0% in Q3 2018
- Selling, general and administrative expenses of $40.7 million, compared to $42.5 million in Q3 2018
- Adjusted EBITDA of $10.6 million, up 3.5% from $10.2 million in Q3 2018
- Basic Earnings per Share of $0.05, compared to $0.07 per share in Q3 2018, and Adjusted Net Income per Share of $0.10, compared to $0.11 per share in Q3 2018
- Ended the quarter with 115 corporate-retail stores in Canada and seven in the United States
- Ended the quarter with 114 partner-operated stores in Taiwan, 35 in China and one in Hong Kong

"Despite delivering Comparable Sales Growth for the quarter, our overall business performed below our expectations," said Jim Gabel, President and Chief Executive Officer of Roots. "We have realized operational improvements at our new distribution centre; however, we continue to face inefficiencies there that are placing downward pressure on earnings. Our new U.S. stores are performing well-below expectations, and macro-economic headwinds continue to negatively affect our Asia business. As a result of these factors, in addition to Adjusted EBITDA and Net Income, we now expect fiscal 2019 sales to fall below our previously disclosed target range. While the business is currently experiencing these operational challenges, we continue to believe that the brand is resonating well with consumers. In addition, free cash flow for the quarter improved significantly compared to the same period last year."

Summary of Third Quarter Fiscal 2019 Financial Results

Sales

Total Q3 2019 sales were $86.4 million, down from total sales of $87.0 million in Q3 2018, reflecting a $3.2 million increase in DTC sales (corporate retail store and eCommerce sales) offset by a $3.8 million decrease in Partners and Other sales (wholesale Roots-branded products, royalties on partner retail sales, licensing to select manufacturing partners and the sale of certain custom Roots-branded products).

Q3 2019 DTC sales were $73.9 million, up 4.6% from $70.7 million in Q3 2018, predominantly driven by Comparable Sales Growth of 3.0%. Roots renovated three stores and relocated and expanded four stores

since Q3 2018, and ended Q3 2019 with 122 corporate-retail stores, a net reduction of three stores as compared to Q3 2018.

Partners and Other sales for Q3 2019 were $12.4 million, down 23.5% from $16.3 million in Q3 2018. The year-over-year decline was due to the early Q2 2019 delivery of certain orders to the Company's operating partner in Asia that were initially planned for Q3 2019, as well as macro-economic and geopolitical headwinds affecting the Asian markets that the Company's partner currently operates within.

Gross Profit

Total gross profit for Q3 2019 was $47.4 million, a 1.1% decrease from $47.9 million in Q3 2018.

Q3 2019 Adjusted DTC gross profit was $43.9 million, essentially flat with $43.8 million in Q3 2018. Q3 2019 Adjusted DTC Gross Margin was 59.3%, down 267 basis points from a Q3 2018 Adjusted DTC Gross Margin of 62.0%. The year-over-year Adjusted DTC Gross Margin decline primarily reflects additional costs related to the Company's move to its new integrated distribution centre, the transition to in-house fulfillment of all eCommerce orders in October 2019, as well as foreign exchange headwinds.

Q3 2019 Partners and Other gross profit was $3.8 million, down 6.1% from $4.1 million in Q3 2018.

Selling, general and administrative expenses (SG&A)

Selling, general and administrative expenses for Q3 2019 were $40.7 million, down 4.2% from $42.5 million in Q3 2018. Excluding the impact of IFRS 16, Q3 2019 SG&A was $42.3 million. Q3 2019 SG&A included incremental costs to support a larger total store fleet square footage and larger distribution centre, costs resulting from higher omni-channel sales, as well as one-time distribution centre transition costs including continued use of a third-party online order distribution facility for approximately two months of the quarter. These areas of increased expense were largely offset by savings related to store wage optimization and temporary vacancies in certain senior leadership roles.

Adjusted EBITDA, Net Income & Adjusted Net Income

Adjusted EBITDA (which excludes the impact of IFRS 16) for Q3 2019 was $10.6 million, up 3.5% from $10.2 million Q3 2018. Q3 2019 net income was $2.0 million, or $0.05 Basic Earnings per Share, down from $2.8 million, or $0.07 Basic Earnings per Share in Q3 2018. In the quarter, the Company recorded an income tax expense of $0.6 million, compared to an expense of $1.3 million in Q3 2018, with an effective income tax expense rate of 22.0%, down from 31.4% in Q3 2018. Q3 2019 Adjusted Net Income (which excludes the impact of IFRS 16) was $4.1 million, or $0.10 per share, compared to $4.7 million, or $0.11 per share, in Q3 2018.

Q3 2019 IFRS 16 Impact

In Q1 2019, Roots commenced reporting lease obligations according to IFRS 16, with leases reflected on the Company's balance sheet and rent expense being replaced with interest and depreciation on the Company's income statement. The Q3 2019 IFRS 16 impact to SG&A was a decrease of $1.6 million; the impact to interest expense was an increase of $2.3 million; and the decrease to deferred tax expense was $0.2 million, resulting in a $0.5 million decrease in net income. Both Adjusted EBITDA and Adjusted Net Income for Q3 2019 exclude the impact of IFRS 16. Through the remainder of fiscal 2019, Roots will

continue to provide adjusted results to accurately compare fiscal 2019 quarterly and annual performance to the same periods in fiscal 2018.

Fiscal 2019 Outlook:
For fiscal 2019 fourth quarter-to-date, the Company is generating positive Comparable Sales Growth. However, given the compressed holiday selling season and the current operational headwinds the Company is facing, Roots expects:

- Sales below the previously disclosed range of $358 to $375 million;
- Adjusted EBITDA below the previously disclosed range of $46 to $50 million; and
- Adjusted Net Income below the previously disclosed range of $20 to $24 million.

Management Change
Today, Roots also announced the resignation of the Company's Chief Merchant, Nancy Lepler, effective immediately. Ms. Lepler is leaving for personal reasons. The Company will immediately commence a search for Ms. Lepler's replacement.

Conference Call and Webcast Information
Roots will hold a conference call to discuss the Company's fiscal 2019 third quarter results on December 6, 2019 at 8:00 a.m. ET. All interested parties can join the call by dialing 647-427-7450 or 1-888-231-8191 and using conference ID: 7188274. Please dial-in 15 minutes prior to the call to secure a line. The conference call will be archived for replay until December 13, 2019 at midnight and can be accessed by dialing 416-849-0833 or 1-855-859-2056 and entering replay passcode: 7188274.

A live audio webcast of the conference call will be available on the Events and Presentations section of the Company's investor website at https://investors.roots.com or by following the link here. Please connect at least 15 minutes prior to the conference call to ensure adequate time for any software download that may be required to join the webcast. An archived replay of the webcast will be available on the Company's website for one-year.

See Roots Interim Consolidated Financial Statements and the Company's Management's Discussion and Analysis of Financial Condition and Results of Operations for the Third Quarter ended November 2, 2019 on the Company's investor website at https://investors.roots.com and on SEDAR at www.SEDAR.com.

About Roots
Established in 1973, Roots is a premium outdoor lifestyle brand. We unite the best of cabin and city through unmistakable style built with uncompromising comfort and quality. We offer a broad range of products that embody a comfortable cabin-meets-city style including: women's and men's apparel, leather goods, footwear, accessories, and kids, toddler and baby apparel. Starting from a little cabin in Algonquin Park, Canada, Roots has grown to become a global brand. As at November 2, 2019, we had 115 corporate-retail stores in Canada, seven corporate-retail stores in the United States, 114 partner-operated stores in Taiwan, 35 partner-operated stores in China, one partner-operated store in Hong Kong and a global eCommerce platform, roots.com. Roots Corporation is a Canadian corporation doing business as "Roots" and "Roots Canada".

Non-IFRS Measures and Industry Metrics

This press release makes reference to certain non-IFRS measures including certain metrics specific to the industry in which we operate. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures are not intended to represent, and should not be considered as alternatives to net income or other performance measures derived in accordance with IFRS as measures of operating performance or operating cash flows or as a measure of liquidity. In addition to our results determined in accordance with IFRS, we use non-IFRS measures including Adjusted DTC Gross Margin, EBITDA, Adjusted EBITDA, Adjusted Net Income (Loss), and Adjusted Net Income (Loss) per Share. This press release also refers to Comparable Sales Growth (Decline), a commonly used metric in our industry but that may be calculated differently compared to other companies. We believe these non-IFRS measures and industry metrics provide useful information to both management and investors in measuring our financial performance and condition and highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. Definitions and reconciliations of non-IFRS measures to the relevant reported measures can be found in our MD&A under "Cautionary Note Regarding Non-IFRS Measures and Industry Metrics", which is available on SEDAR at www.sedar.com or the Company's Investor Relations website at https://investors.roots.com.

Forward-Looking Information

Certain information in this press release contains forward-looking information. This information is based on management's reasonable assumptions and beliefs in light of the information currently available to us and are made as of the date of this press release. Actual results and the timing of events may differ materially from those anticipated in the forward-looking information as a result of various factors. Information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information. Statements containing forward-looking information are not facts but instead represent management's expectations, estimates and projections regarding future events or circumstances. Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements.

See "Forward-Looking Information" and "Risk Factors" in the Company's current Annual Information Form for a discussion of the uncertainties, risks and assumptions associated with these statements. Readers are urged to consider the uncertainties, risks and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such information. We have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities law.

ROOTS CORPORATION

Interim Condensed Consolidated Statement of Financial Position
(In thousands of Canadian dollars, except per share amounts)
(Unaudited)

	As at November 2, 2019	As at February 2, 2019
Assets		
Current assets:		
Cash	$ 453	$ 1,991
Accounts receivable, net	7,712	6,627
Inventories	70,373	49,533
Prepaid expenses	4,460	6,443
Income taxes recoverable	2,257	–
Derivative assets	–	366
Total current assets	85,255	64,960
Non-current assets:		
Loan receivable	562	562
Lease receivable	1,590	–
Fixed assets	75,181	64,163
Right-of-use assets	135,589	–
Intangible assets	193,769	198,724
Goodwill	52,705	52,705
Total non-current assets	459,396	316,154
Total assets	$ 544,651	$ 381,114
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	$ 1,809	$ 12,409
Accounts payable and accrued liabilities	34,628	22,291
Deferred revenue	4,398	5,498
Income taxes payable	–	6,445
Derivative liabilities	485	–
Current portion of lease liabilities	29,566	–
Current portion of long-term debt	4,984	4,984
Total current liabilities	75,870	51,627
Non-current liabilities:		
Deferred tax liabilities	22,501	22,761
Deferred lease costs	–	10,063
Finance lease obligation	–	504
Long-term portion of lease liabilities	123,781	–
Long-term debt	126,611	80,031
Other non-current liabilities	–	1,424
Total non-current liabilities	272,893	114,783
Total liabilities	348,763	166,410
Shareholders' equity:		
Share capital	196,903	196,853
Contributed surplus	4,452	3,975
Accumulated other comprehensive income (loss)	(356)	268
Retained earnings (deficit)	(5,111)	13,608
Total shareholders' equity	195,888	214,704
Total liabilities and shareholders' equity	$ 544,651	$ 381,114

On behalf of the Board of Directors:

"Erol Uzumeri" Director

"Richard P. Mavrinac" Director & Audit Committee Chair

ROOTS CORPORATION

Interim Condensed Consolidated Statement of Net Income (Loss)
(In thousands of Canadian dollars, except per share amounts)
(Unaudited)

For the 13 and 39 week periods ended November 2, 2019 and November 3, 2018

	November 2, 2019 (13 weeks)	November 3, 2018 (13 weeks)	November 2, 2019 (39 weeks)	November 3, 2018 (39 weeks)
Sales	$ 86,377	$ 86,979	$ 202,412	$ 198,205
Cost of goods sold	38,998	39,049	95,513	88,060
Gross profit	47,379	47,930	106,899	110,145
Selling, general and administrative expenses	40,697	42,465	118,863	115,014
Income (loss) before interest expense and income taxes expense (recovery)	6,682	5,465	(11,964)	(4,869)
Interest expense	4,159	1,393	11,605	3,736
Income (loss) before income taxes	2,523	4,072	(23,569)	(8,605)
Income taxes expense (recovery)	554	1,277	(6,117)	(1,729)
Net income (loss)	$ 1,969	$ 2,795	$ (17,452)	$ (6,876)
Basic earnings (loss) per share	$ 0.05	$ 0.07	$ (0.41)	$ (0.16)
Diluted earnings (loss) per share	$ 0.05	$ 0.07	$ (0.41)	$ (0.16)

ROOTS CORPORATION

Interim Condensed Consolidated Statement of Comprehensive Income (Loss)
(In thousands of Canadian dollars, except per share amounts)
(Unaudited)

For the 13 and 39 week periods ended November 2, 2019 and November 3, 2018

	November 2, 2019 (13 weeks)	November 3, 2018 (13 weeks)	November 2, 2019 (39 weeks)	November 3, 2018 (39 weeks)
Net income (loss)	$ 1,969	$ 2,795	$ (17,452)	$ (6,876)
Other comprehensive income (loss), net of taxes:				
Items that may be subsequently reclassified to profit or loss:				
Effective portion of changes in fair value of cash flow hedges	(398)	419	112	3,517
Cost of hedging excluded from cash flow hedges	121	54	359	178
Tax impact of cash flow hedges	74	(126)	(125)	(984)
Total comprehensive income (loss)	$ 1,766	$ 3,142	$ (17,106)	$ (4,165)

ROOTS CORPORATION

Interim Condensed Consolidated Statement of Changes in Shareholders' Equity
(In thousands of Canadian dollars, except per share amounts)
(Unaudited)

For the 39 week periods ended November 2, 2019 and November 3, 2018

November 2, 2019 (39 weeks)	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total
Balance, February 2, 2019	$ 196,853	$ 3,975	$ 13,608	$ 268	$ 214,704
Adjustment on adoption of IFRS 16	–	–	(1,267)	–	(1,267)
Balance, February 3, 2019	$ 196,853	$ 3,975	$ 12,341	$ 268	$ 213,437
Net loss	–	–	(17,452)	–	(17,452)
Net gain from change in fair value of cash flow hedges, net of income taxes	–	–	–	346	346
Transfer of realized gain on cash flow hedges to inventories, net of income taxes	–	–	–	(970)	(970)
Share-based compensation	–	527	–	–	527
Issuance of shares	50	(50)	–	–	–
Balance, November 2, 2019	$ 196,903	$ 4,452	$ (5,111)	$ (356)	$ 195,888

November 3, 2018 (39 weeks)	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total
Balance, February 4, 2018	$ 195,994	$ 1,675	$ 2,208	$ (904)	$ 198,973
Net loss	–	–	(6,876)	–	(6,876)
Net gain from change in fair value of cash flow hedges, net of income taxes	–	–	–	2,710	2,710
Transfer of realized gain on cash flow hedges to inventories, net of income taxes	–	–	–	(1,083)	(1,083)
Share-based compensation	–	1,985	–	–	1,985
Issuance of shares	859	(206)	–	–	653
Balance, November 3, 2018	$ 196,853	$ 3,454	$ (4,668)	$ 723	$ 196,362

ROOTS CORPORATION

Interim Condensed Consolidated Statement of Cash Flows
(In thousands of Canadian dollars, except per share amounts)
(Unaudited)

For the 39 week periods ended November 2, 2019 and November 3, 2018

	November 2, 2019 (39 weeks)	November 3, 2018 (39 weeks)
Cash provided from (used in):		
Operating activities:		
Net loss	$ (17,452)	$ (6,876)
Items not involving cash:		
Depreciation and amortization	29,100	9,130
Share-based compensation expense	527	1,985
Deferred lease recovery	–	(565)
Amortization of lease intangibles	–	407
Interest expense	11,605	3,736
Income taxes recovery	(6,117)	(1,729)
Gain on lease modification	(457)	–
Interest paid	(4,345)	(3,310)
Payment of interest on lease liabilities	(6,787)	–
Taxes paid	(2,159)	(2,036)
Change in working capital:		
Accounts receivable	(1,085)	(3,551)
Inventories	(20,840)	(31,979)
Prepaid expenses	1,983	(1,111)
Accounts payable and accrued liabilities	12,337	8,963
Deferred revenue	(1,100)	(532)
	(4,790)	(27,468)
Financing activities:		
Issuance of long-term debt	50,000	40,000
Long-term debt financing costs	(163)	(66)
Repayment of long-term debt	(3,737)	(3,737)
Finance lease payments	–	(282)
Payment of principal on lease liabilities, net of tenant allowance	(12,775)	–
Proceeds from issuance of shares	–	653
	33,325	36,568
Investing activities:		
Additions to fixed assets	(19,473)	(28,997)
Tenant allowance received	–	6,034
	(19,473)	(22,963)
Increase (decrease) in cash	9,062	(13,863)
Cash and bank indebtedness, beginning of period	(10,418)	1,809
Cash and bank indebtedness, end of period	$ (1,356)	$ (12,054)

# # #

FOR FURTHER INFORMATION PLEASE CONTACT:

Investor Relations
Kristen Davies
kdavies@roots.com
416-781-3574 Ext. 4116

Public Relations
Elyse Goody
egoody@roots.com
416-781-3574 Ext. 4332